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S E C R E T ABU DHABI 001270

C O R R E C T E D C O P Y - (CLASSIFICATION CHANGED TO SECRET)

SIPDIS

DEPARTMENT FOR NEA/FO, NEA/ARP (BMASILKO) AND EEB  
STATE PLEASE PASS USTR (BUNTIN)

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TAGS: [EFIN](#) [ECON](#) [EINV](#) [ENRG](#) [PGOV](#) [AE](#)  
SUBJECT: ABU DHABI: WHERE THE CASH IS?

REFS: A) ABU DHABI 1225  
B) ABU DHABI 1221  
C) ABU DHABI 1141  
D) ABU DHABI 1079

Classified by Ambassador Richard G. Olson for reasons 1.4 (b,d).

¶1. (C) Summary. While concerns about the health of the world economy continue, and rumors swirl about Dubai's debt, Abu Dhabi remains quietly confident about its financial future. This attitude is attracting suitors from Dubai, Iceland and beyond, although officials are believed to be focusing their efforts on the local market. Contacts report Abu Dhabi took control of Dubai assets in exchange for a cash injection, following a deal brokered by UAE President Sheikh Khalifa. Despite the calm confidence projected, banking and other mergers remain widely expected and declining oil prices could change everything. End Summary.

¶2. (C) Although one Emirati official told DCM that ADIA had lost up to 25 percent of its portfolio value, the government of Abu Dhabi continues to project an attitude of confidence. Minister of Foreign Trade Sheikha Lubna Al Qassimi told visiting USTR Susan Schwab that a positive message is key to the UAE's continued economic success. The spin, combined with high-profile private investments, such as Sheikh Mansour bin Zayed's recent \$5 billion stake in Barclay's, has attracted governments and businessmen from around the world to Abu Dhabi in search of cash.

¶3. (C) Despite the international attention, contacts report that Abu Dhabi-based sovereign wealth funds ADIA and ADIC have been instructed not to make investments abroad to conserve cash to support the local market. After weeks of speculation, two senior expat advisors told the Ambassador that the Dubai bailout had been arranged in the form of an "asset transfer." While the exact dollar value remains unclear, and may be dispersed in tranches, Abu Dhabi was expected to gain equity stakes in some of Dubai's high-profile projects. We are also hearing from business contacts that ADIA is definitely retrenching, but that ADIC is at least hearing foreign investors out.

¶4. (S) Investments in Dubai come at the expense of Abu Dhabi's own ambitious plans and required the highest level intervention. Contacts report that UAE President and Ruler of Abu Dhabi Sheikh Khalifa bin Zayed is directly calling the shots on financial matters. One expat told the Ambassador that Khalifa had organized a late-October hunting trip to Kazakhstan with Abu Dhabi Crown Prince Mohammed bin Zayed (MbZ) and Dubai Ruler Mohammed bin Rashid (MbR) to broker an agreement on Dubai's bailout. Advisors reportedly presented MbZ, who is behind many of Abu Dhabi's megaprojects, with options on what to scale back in order to provide short term assistance to Dubai.

¶5. (C) More broadly, it appears the local market is adjusting to new financial realities. Although only a fraction of the federal liquidity injection has been utilized (Ref B), a wide range of

contacts in Dubai and Abu Dhabi report that the UAE is overbanked and mergers are likely. Some have suggested that the major Abu Dhabi-owned banks, including Abu Dhabi Commercial Bank and National Bank of Abu Dhabi, could be merged to create one of the largest banks in the Gulf. Real estate and financial firms are also expected to consolidate in 2009.

16. (C) Abu Dhabi officials continue to argue that the high growth and inflation of past years was unsustainable and welcome a minor correction. Similarly, large local investors, while not bullish, are reportedly confident thanks to well-diversified portfolios. Investment managers say their Emirati clients remain interested in the US real estate market; one private Emirati told ConOff he had just purchased two condos at Tysons Corner.

17. (C) Comment. Despite the current confidence, a continued decline in oil prices could change Abu Dhabi's outlook in 2009. If oil falls below \$50/barrel, the government will have to reconsider its development plans. A budget deficit, which is historically funded by ADIA, could make everyone more conservative. The sons of Sheikh Zayed, who have personally driven much of the emirate's rapid and high-profile growth since his death, may have to rethink their strategy. End Comment.  
OLSON